

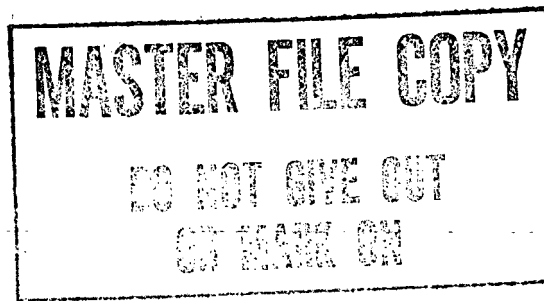
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## Japanese Agriculture: A Protected Industry

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An Intelligence Assessment

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EA 82-10109  
October 1982

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# **Japanese Agriculture: A Protected Industry**

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**An Intelligence Assessment**

This assessment was prepared by [redacted]  
Japan Branch, Office of East Asian Analysis.  
Comments and queries are welcome and may be  
directed to the Chief, Northeast Asia Division, on  
[redacted]

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The paper has been coordinated with the National  
Intelligence Council. [redacted]

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**Japanese Agriculture:  
A Protected Industry**

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**Key Judgments**

*Information available  
as of 14 September 1982  
was used in this report.*

Japan, the single-largest market for US agricultural exports, shows no inclination to change policies that have kept its agricultural sector highly protected and inefficient:

- A large number of part-time farmers, outdated production techniques, an aging labor force, and small farm size have driven up costs.
- Government control of rice prices and large subsidy payments have worked against crop diversification and left Japan burdened with huge surplus rice stocks.
- Although Tokyo wants to maintain a high degree of self-sufficiency, reflecting Japan's concern for food security, an increasingly Westernized diet and declining demand for rice continue to reduce Japan's ability to feed itself.

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Reflecting the strong political clout of Japanese farmers, the government is unlikely to agree to remove quotas on agricultural imports despite US pressure at talks that open in October.

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Roughly 6 percent of all Japanese agricultural imports are covered by quotas, reaching \$1.1 billion in 1981. While quotas have limited some import categories, changes in eating habits since World War II and income growth have led to a rapid expansion in imports. About 40 percent of agricultural imports come from the United States.

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We estimate that removing the quotas in 1981 would have increased agricultural imports about 4 percent; that would have yielded \$600-700 million, with beef accounting for over half of the increase. Imports from the United States would have risen by about \$150 million. These gains, however, appear to be the outer limit, because Japan's complex distribution system could still restrict access to the retail market.

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The cost of Japan's agricultural policy is borne mainly by the consumer. Retail rice prices are 60 percent higher in Japan than in the United States. Despite these costs, consumers tend to oppose freer access to the Japanese market for foreign products because they fear it would destroy the Japanese farm sector and make Japan vulnerable to foreign pressures.

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Removal of import quotas will require overcoming longstanding political and economic barriers. Politically, Japanese farmers are well organized. They represent about 20 percent of the electorate in a system where rural districts have clout out of proportion to their population density. Japanese political parties, especially the ruling Liberal Democratic Party, are heavily dependent on rural support. Some economic interests are also opposed to liberalization. Those few firms that control imports earn substantial profits under the present system.

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## Japanese Agriculture: A Protected Industry

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### Introduction

In sharp contrast to the manufacturing sector in Japan, the agricultural sector is small and remarkably inefficient. Output accounts for only 4.3 percent of GNP and in 1981 reached \$49 billion. The single-largest factor in holding down output and productivity is farm size. Agriculture uses about 5.5 million hectares, roughly 15 percent of Japan's total land area, but the average farm size is only about 1 hectare (2.5 acres).<sup>2</sup> Only about 9 percent of Japan's 4.6 million farm households own more than 2 hectares. In addition, an average farm uses five unconnected plots of 0.1 to 0.2 hectare. In rice production, total costs per kilogram on a 1-hectare farm are 25 percent higher than on a 3-hectare plot, according to official data.

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Although farm population has been declining since World War II, the rate of decline has slowed in recent years. Most Japanese farmers work part-time on the farm and earn most of their income from nonfarm sources. According to Agricultural Ministry data, many heads of families and first sons are engaged in nonfarm employment, leaving the care of farms to the aged and women. About 60 percent of the agricultural labor force is over 50 years of age. In 1979 the average age of farm workers was 51 years compared to 39 in the manufacturing sector.

The small scale of Japanese farming, combined with inefficient production techniques in some areas, has resulted in a relatively slow increase in labor productivity. Productivity, measured in per capita production, increased at an average annual rate of 2.8 percent in the period of fiscal year 1975 through fiscal year 1980 compared to a 6.6-percent increase for manufacturing. A recent study by the Japan Productivity Center showed the Japanese farmer to be only 25 percent as productive as his US counterpart

<sup>2</sup> By comparison, the average farm size is 174 hectares in the United States, 69 hectares in the United Kingdom, 25 hectares in France, 15 hectares in West Germany, and 7 hectares in Italy.

### The Crops

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Rice accounts for 30 percent of the roughly \$49 billion in gross agricultural output. The remaining output is divided equally between secondary crops (citrus, potatoes, and cabbage) and livestock.

Even though many farmers grow rice only for their own consumption, Japan has a chronic oversupply. Despite bad crop years in 1980 and 1981, government stocks of rice stood at 4 million tons<sup>3</sup> in late 1981, compared to estimated 1981-82 consumption of about 10 million tons.

The underlying cause of this surplus is that the Japanese demand for rice is falling faster than the rate at which the government is willing to force down production.

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### Postwar Agricultural Policies

Japan's postwar agricultural policies have contributed heavily to existing problems. The immediate postwar policy was designed to secure stable food supplies, bring about land reform, and provide employment. Tokyo tried to achieve these goals through emergency agricultural development projects and the Agricultural Land Law of 1952. In addition, Tokyo continued older policies of rigid government control over the pricing, purchasing, and distribution of rice, wheat, and potatoes. The Land Law, designed to end the semifeudal landlord-tenant relationship that existed in Japan, led the government to purchase about 1.7 million hectares from landlords and then resell it, mostly in small plots, to the existing tenants.

To meet the changes of rapid industrialization, Tokyo enacted the Agricultural Basic Law in 1961. That law was designed to expand farm size and make agriculture more capital intensive through such measures as

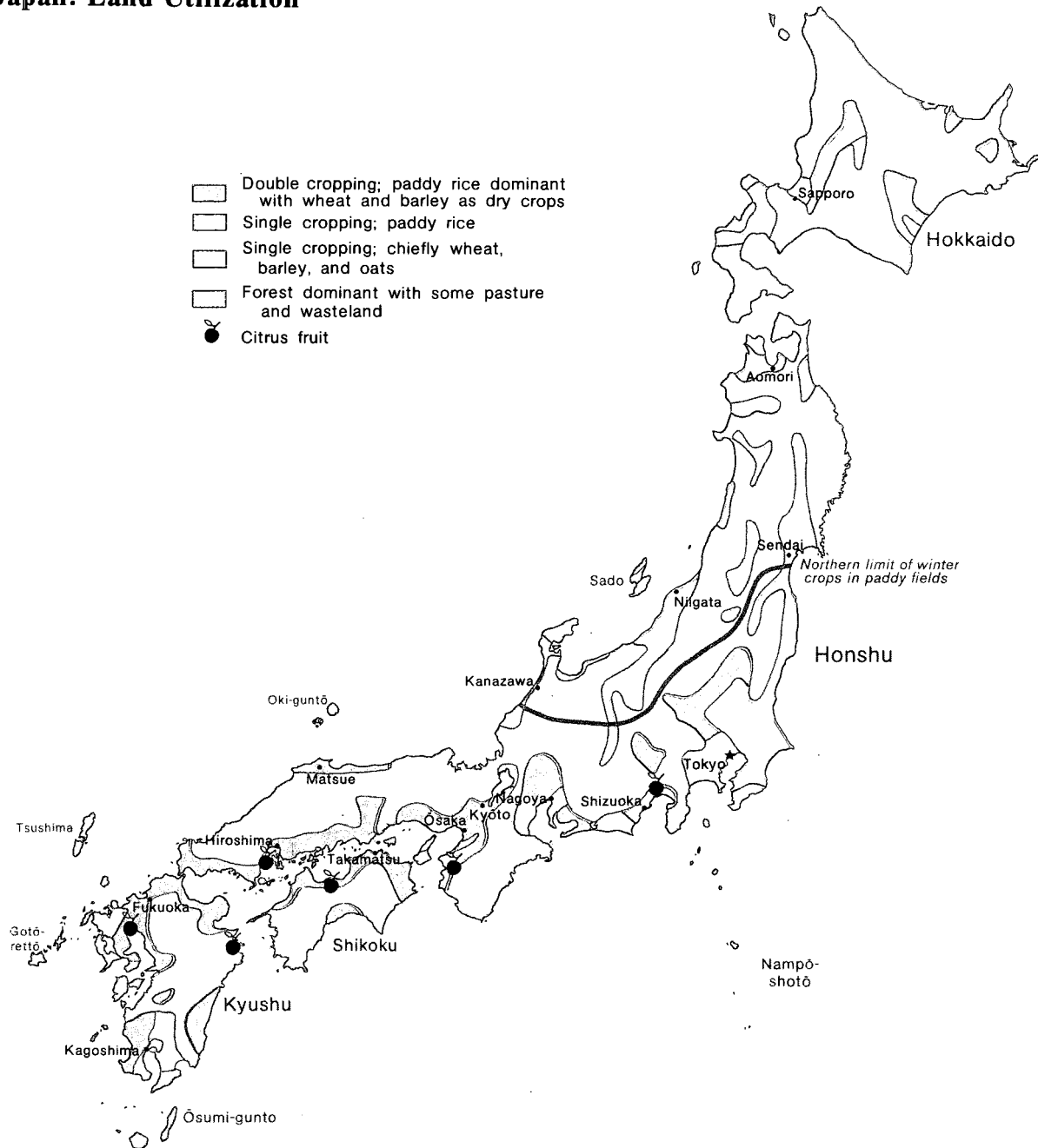
<sup>3</sup> All tons in this publication are metric tons.

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## Japan: Land Utilization



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land leasing, long-term low-interest loans, and subsidies. To stabilize farm income, Tokyo imposed state control of rice prices and subsidized the soybean crop. While successfully stabilizing farm income, Tokyo did not improve agricultural productivity because farm size changed little:

- Skyrocketing rice prices encouraged farmers, particularly part-time farmers, to hold on to land.
- The Agricultural Land Law continued to restrict the leasing of farms. [ ] 25X1

In recent years, Tokyo's agricultural policy has focused on maintaining a high degree of self-sufficiency, reflecting Japan's concern for food security. But it has had little success. On a value basis, official government statistics (table 1) show that Japan produced 72 percent of its food in 1980, compared to 90 percent in 1960. Measured in original calories (counting domestic livestock production as imported to the extent that feedgrains are imported), the decline has been steeper. One academic estimates that Japan produces 50 percent of its food compared to 80 percent in 1955. [ ] 25X1

Tokyo has incurred enormous budget costs in supporting rice prices, diverting production, and disposing of surplus stocks through food aid and alternative uses such as animal feeds. The Food Agency buys about 50 percent of the crop at the producer price and resells it at a lower consumer price. About \$5 billion in subsidies for rice-related programs was budgeted in fiscal year 1981, about half of Japan's total agricultural subsidies. Costs could rise even further this year. Despite an initial commitment to budget austerity, Tokyo succumbed to pressure from farmers this year and allowed the producer price to rise by 1.1 percent. The new producer price was set at about \$70 per 60-kilogram bag, three times the internationally traded level. The consumer price is set at \$66. We believe the new costs probably will be offset by cutting funds to other subsidies and increasing the government selling prices. [ ] 25X1

Other farm income maintenance programs include production and interest subsidies, rural development assistance, and price stabilization payments. Payments for those programs were set at about \$6 billion in fiscal year 1981. In addition to the major Ministry of Agriculture, Forestry, and Fisheries subsidies, farmers benefit from financing through agencies such

**Table 1**  
**Japan: Self-Sufficiency Ratios <sup>a</sup>**

Percent

	1980	1990 <sup>b</sup>
Rice	87 <sup>c</sup>	100
Wheat	10	19
Soybeans	4	8
Vegetables	97	99
Fruit and nuts	81	83
Milk and milk products	86	89
Meat	81	83
Beef	72	71
Pork	87	95
Eggs	98	99
Sugar	28	32
Fish and shellfish	87	80
<b>Total food</b>	<b>72</b>	<b>73</b>
Grains		
Food use	69	68
Food and feed	33	30

<sup>a</sup> Formula:  $\frac{\text{Total self-sufficiency ratio}}{\frac{\text{Total value of domestic production}}{\text{Total value of domestic consumption}}} \times 100$

<sup>b</sup> Official Japanese projections.

<sup>c</sup> Down from 107 in 1979 because of an extremely poor harvest.

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as the National Land Development Agency, the Hokkaido Development Agency, and the Okinawa Development Agency. These programs funnel an estimated \$1.3 billion a year into the agricultural sector. In 1981, government agricultural policies and subsidies supplied 54 percent of total farm income. [ ]

#### Foreign Trade Policies

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Japan, like most other countries, protects its agricultural sector from foreign competition. Tokyo maintains residual import quotas on 19 agricultural products (based on four-digit BTN trade classifications) (table 2). The government is also the only buyer for rice, wheat, barley, and unmanufactured tobacco. [ ]

Products under quotas, including beef, citrus fruit, citrus juice, and peanuts, represented \$1.1 billion in 1981 according to official trade statistics, roughly

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**Table 2**  
**Japan: Nineteen Agricultural**  
**Products Subject to Residual**  
**Import Restrictions, 1981**

Million US \$

	BTN Code	Imports	
		Total	From United States
<b>Livestock</b>			
Meat of bovine animals	0201	403	115
Milk and cream (fresh)	0401	NEGL	0
Milk and cream (pre- served, concentrated, or sweetened)	0402	104	2
Processed cheese, curds, and other materials for making cheese	0404	139	7
Prepared or preserved bovine or pig meat in airtight containers	1602	48	12
<b>Fruits and vegetables</b>			
Oranges and tangerines (fresh)	0802	63	63
Oranges and tangerines (temporarily preserved)	0811	29	0
Fruit puree and fruit pastes	2005	1	NEGL
Pineapples and fruit pulp (canned)	2006	18	1
Fruit juices and tomato juice	2007	23	15
Tomato ketchup and sauce	2104	2	2
<b>Sugar and starches</b>			
Starches and insulin	1108	31	NEGL
Grape sugar, and so forth	1702	NEGL	NEGL
<b>Grain</b>			
Wheat and rice flour, and so forth	1101	NEGL	NEGL
Wheat and rice groats and meal	1102	1	NEGL
<b>Other</b>			
Small red beans, broad beans, peas	0705	123	24
Ground nuts (except for vegetable oil)	1201	85	10
Tubers of konnyaku	1208	NEGL	0
Food preparations con- taining added sugar, milk, wheat, and so forth	2107	45	21

6 percent of total agricultural imports. Beef and citrus fruit, the two most important items, totaled \$495 million. Trade with the United States in the restricted items reached \$272 million in 1981, 1 percent of total Japanese imports from the United States. Beef and citrus accounted for 65 percent of the products. Other major items included juices, cheese, and preserved meat (appendix table). [redacted]

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Items for which the government is the only buyer accounted for \$2 billion, about 11 percent of agricultural imports. These products are purchased at lower world prices and resold in Japan at high domestic prices. The profits are usually used to promote agricultural production and maintain farm prices. In fiscal year 1981, the Agricultural Ministry's Food Agency expected to earn \$350 million from the sale of wheat. Government trading has restricted rice imports; many US industry experts do not believe it has had much of an effect on wheat, unmanufactured tobacco, and barley imports. [redacted]

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Even though the government maintains restrictive agricultural import policies, postwar changes in dietary habits, rapid income growth, and population growth are among factors that have led to a rapid expansion in total agricultural imports. In 1976-81, imports increased at an average annual rate of about 8 percent in value and 3 percent in volume. Imports—consisting mainly of meats, cereal, oilseeds, and cotton—reached \$18.1 billion in 1981, with the United States, Australia, and Canada providing over 60 percent of the total. [redacted]

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Postwar import patterns have also resulted in a highly complementary US-Japanese agricultural relationship despite current strains. Japan depends on the United States for a major share of its food, feed, and agricultural raw materials. Over one-third of Japanese agricultural imports come from the United States; Japan is the single-largest country market for the United States. To supply the Japanese consumer, US industry analysts estimated that 21 million US hectares were used in 1978 or approximately 5 percent of total US hectareage. [redacted]

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**The Japanese Consumer**

The cost of Japan's inefficient agricultural sector is borne mainly by the Japanese consumer. For example, Japanese retail beef prices in 1980 were nearly 150 percent higher than US prices; rice was 60 percent higher (table 3). Estimates of the costs to consumers vary. For example, the Japanese National Institute for Research Advancement, analyzing the market for eight major agricultural commodities including wheat, rice, beef, pork, and dairy products, estimated that Japanese consumers paid \$16 billion more for these commodities than they would have without trade restrictions. That translates into about \$135 per capita. Other Japanese industrial analysts, who include the burden of subsidy payments, place the cost at \$20-25 billion, or at \$170 to \$215 per person. [ ]

Japan's agricultural problems stem in large part from changes in eating habits over the past two decades. As average household disposable income expanded at an annual rate of 10.6 percent during the 1955-79 period, consumer outlays for food as a percent of total expenditures decreased from 47 to 30 percent, a level comparable to those of some European Community countries. For the average consumer's food budget:

- Rice decreased from 28 to 9 percent.
- Meats, milk, and eggs increased from 10 to 17 percent.
- Restaurant meals increased from 4 to 13 percent.

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Changes in quantity consumed showed similar patterns. Annual consumption of rice decreased from 105 to 80 kilograms per person while meat consumption increased from 3 to 23 kilograms. According to official government projections, rice consumption should fall to 63 to 66 kilograms by 1990. [ ]

Despite the costs and the shift in tastes, most consumers and consumer groups side with farmers in the debate over freer access to the Japanese market for foreign products. The reasons usually cited in surveys include:

- Food as a percent of total household expenditures has declined, despite high prices.
- Japanese products are considered top quality.
- Many consumers have relatives working on farms or in the agricultural industry. [ ]

**Table 3****US-Japan Comparison of Consumer Food Prices, October 1980**

Items	Tokyo	New York
Rice	100	62
Bread	100	93
Beef	100	40
Pork	100	65
Chicken	100	41
Eggs	100	63
Sausage	100	123
Potatoes	100	49
Tomatoes	100	150
Onions	100	55
Bananas	100	67
Sugar	100	116

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Consumer support for farmers grew as a result of the US soybean embargo of 1973. We believe that to the individual Japanese, it must have demonstrated Japan's vulnerability to a sudden disruption of food supply. In addition, the US embargo on grain shipments to the USSR after the invasion of Afghanistan heightened Japanese concern about the use of food as a political weapon. [ ] 25X1

**Political Barriers to Liberalization**

As one would expect, Japanese farmers, who stand to suffer the main economic losses from removing quotas on agricultural imports, are vehemently opposed. According to press reports, farmers believe they are being made scapegoats for trade frictions over manufactured goods. [ ] 25X1

One of the concerns of farmers that is given considerable press coverage is that if Japan gives in to US pressure, Washington may eventually demand that Japan purchase American rice, a move farmers say would lead to financial ruin. About 40 percent of Japan's farm households specialize in rice farming, and according to press reports they earned on average

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about \$2,300 in 1980 from rice sales, about 15 percent of total income. In interviews with reporters, farmers have expressed the fear that a removal of the virtual ban on rice imports would destroy Japan's less competitive producers. Still others, including government officials and consumers, assert that rice imports would further undermine the drive for food self-sufficiency.

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Japanese farmers, by any standard, are well organized and well situated for political action. They are organized into local, prefectural, and national agricultural cooperatives, collectively termed Nohkyo. At the national level the cooperatives consist of three separate bodies: the National Federation of Agricultural Cooperative Association (Zennoh), a central cooperative agricultural bank (Nohrinchuoginko or Nohringinkoh), and a Central Union of Agricultural Cooperatives (Zenchu). In 1977, Zennoh claimed a membership of about 8 million.

Nohkyo's scope extends from basic farm-related activities, such as marketing and supplying credit, to nonfarm activities such as providing medical and consumer services:

- Farmers sell almost all of their output to cooperatives and purchase most of their supplies from them.
- Noringinkoh is the second most important bank in Japan in terms of consumer savings.
- The government uses Nohkyo as a channel for payments to farmers.
- Nohkyo also administers such programs as the collection, storage, purchase, and sale of rice and other grains on the government's behalf.

Nohkyo's political power derives from the strategic position of the farm bloc. Although the agricultural population (roughly 21 million) has been declining, it still represents 20 percent of the electorate. The farm vote is further magnified by the uneven structure of the Japanese electoral system, which heavily favors rural districts. The imbalance reflects the failure to adjust electoral boundaries for population movements. In the 1980 Diet elections, rural and semirural voters decided 65 percent of the seats. On a voting district basis, for example, 660,000 voters in Chiba Prefecture's fourth district (urban area) elected three representatives; in Hyogo Prefecture's fifth district (rural area) 210,000 elected three representatives.

Farmers have leaned heavily toward the Liberal Democratic Party. In the 1980 elections, 68 percent of the LDP members of the Diet's lower house were from rural and semirural districts (table 4). In addition, key leaders are also from rural districts:

- Five of the six major LDP faction leaders—Suzuki, Fukuda, Nakasone, Nakagawa, and Tanaka—are from rural districts.
- Thirteen of the 20 members of the current Cabinet are from rural districts.

Rural support is also important for the other parties. More than 42 percent of non-LDP house members were from rural districts.

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### Economic Barriers

The quotas have created vested economic interests that are opposed to liberalization. Quota licenses are given principally to firms controlling domestic distribution. According to Japanese press reports, about 60 percent of last year's orange imports were handled by only four firms. In addition, 80 percent of beef imports are handled by the Government's Livestock Industry Promotion Corporation (LIPC).

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Quota holders are in a position to take advantage of the difference between the imported price of products and domestic prices:

- Government statistics show that the LIPC earned a profit of \$200 million in 1979 from beef; the money was used to provide subsidies and low-interest loans to livestock producers.
- The Japanese press found one trading house that had a 40-percent profit margin on imported oranges.

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Even if liberalization occurs, a variety of other barriers to agricultural trade will remain. These include tariffs, strict plant quarantine measures, customs procedures, and additive regulations.

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### Effects of Liberalization

On the basis of 1981 import values, we estimate that had Japan removed its import quotas, total agricultural imports would have increased by \$600-700 million, roughly 4 percent. This compares with estimates of a \$1.5 billion increase by the Ministry of Agriculture

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**Table 4**  
**Japan: Impact of Rural Voters**  
**on Liberal Democratic Party**

Election Date	Total LDP Representatives	Rural as Percent of Total
<b>Lower House of Japanese Diet</b>		
June 1980	284	68
October 1979	248	72
December 1976	249	70
December 1972	271	73
December 1969	288	67
<b>Upper House of Japanese Diet</b>		
June 1980	69	56
July 1977	63	57
July 1974	62	60

and \$300-400 million by Japanese farm organizations.<sup>4</sup> Our estimate assumes that domestic prices would drop to the level of import prices and that foreign suppliers would hold on to their current share of the import market.<sup>5</sup>

We estimate that beef imports would increase by \$361 million while citrus imports would rise by \$21 million. Imports from the United States would increase by \$153 million; about two-thirds would reflect higher beef imports. Imports of beef from Australia would increase by \$216 million.

We believe that this increase is probably the outer limit, because the current distribution system could inhibit imports, particularly for beef and citrus, where a few firms control the market. These firms probably would not want to jeopardize already large profits. In addition, our estimate assumes that the government would not undertake other policies to inhibit imports. But we would not be surprised to find that Tokyo—as it has in the past—is considering some plan to compensate farmers, including additional agricultural tariffs or surcharges.

<sup>4</sup> We have no information on how the Ministry or the farm organizations arrived at these figures. (U)

<sup>5</sup> See the appendix for a detailed discussion of our methodology.

### Liberalization Prospects

We do not believe that Tokyo will agree to lower trade barriers significantly at US-Japanese negotiations that open in October:

Agricultural Ministry officials will avoid in-depth negotiations until after the US elections in November,

We believe those politicians from rural districts will also try to stall the liberalization question until after Japanese national elections in mid-1983.

### Long-Run Adjustments

We believe that over the next few years market forces will push Tokyo—albeit slowly—to lower agricultural trade barriers. Food demand will rise and the Westernization of Japan's diet will probably continue. This will mean greater demand for imports of poultry, beef, wheat, feedstuffs, soybeans, fruits, and vegetables. According to one US academic study, Japanese

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caloric intake of animal products will increase from 20 percent of the diet in 1980 to 40 percent by the year 2000. [REDACTED]

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It is unlikely that domestic production can meet this demand. Industry experts predict that Japan could be producing only 40 percent of its food in terms of original calories as early as 1985, even if Tokyo makes progress in improving agricultural productivity. Irrigation, fertilizer use, and crop yields are already at high levels, and there are major obstacles to increasing farm size:

- Government restrictions make it almost impossible for landlords to evict tenants.
- The cost of land, estimated by the Japanese press to average \$25,000 per acre, precludes additional purchases by all but a few farmers. [REDACTED]

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We believe that forming a national consensus on liberalization will be a very slow process, even though from all indications there is a growing awareness among some politicians and bureaucrats of the problems associated with agriculture, particularly the financial drain. According to US Embassy reports, policy-level officials fear that alternative programs may be even more costly and would require tax increases. [REDACTED]

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**Table 5**  
**Japan: Estimated Impact of Abolishing Quotas <sup>a</sup>**

Million US \$

	Estimated Import Price Elasticities	Japanese Imports of Quota Items, 1981		Import Increments	
		Total	From US	Total	From US
Total		1,115	272	642	153
Beef	.98-1.5	403	115	361	102
Milk and cream (fresh)	.52	NEGL	0	NEGL	0
Milk and cream (preserved)	.52	104	2	42	1
Cheese	1.94	139	7	72	4
Beans	.82	123	24	88	19
Citrus (fresh)	.47	63	63	14	13
Citrus (preserved)	.47	29	0	7	0
Flour (wheat, rice, barley)	.76	NEGL	NEGL	NEGL	NEGL
Flour (wheat, rice, barley)	.76	NEGL	NEGL	NEGL	NEGL
Groats and meal (wheat, rice, barley)	.76	1	NEGL	NEGL	NEGL
Starches and insulin	.76	31	NEGL	19	NEGL
Peanuts	.24	85	10	NEGL	NEGL
Tubers of konnyaku	.47	NEGL	0	NEGL	0
Meat (preserved)	.98-1.5	48	12	20	5
Sugars and confectionaries	.76	NEGL	NEGL	NEGL	NEGL
Fruit purees and pastes	.47	1	NEGL	NEGL	NEGL
Pineapples and fruit pulp	.47	18	1	1	NEGL
Fruit juices	.47	23	15	4	3
Tomato ketchup and sauce	.47	2	2	NEGL	NEGL
Food preparations	.47	45	21	14	6

<sup>a</sup> Based on c.i.f. import value.

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